



Confederation of Indian Industry

Fintech and start-ups fueling India's USD5 trillion economy

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Preface

With India striving to be a \$5 Trillion economy, India need to capitalize more heavily around developing disruptive business models, use digital technologies to create and deliver value to the customer in an integrated, innovative blend.

With digital technologies rapidly advancing, success largely depends on the ecosystems' ability to keep pace and transform. By integrating newer methods of data collection, using analytics, automation, and artificial intelligence, and plugging processes vertically, Governments, Private Enterprises, Infrastructure & Service providers, can go beyond the normal, to provide disruptive digital solutions. Data-driven services and integrated platform solutions, optimizing customer interaction and access, serve customers with complete solutions in a distinct digital ecosystem. However, broad use of data also raises important issues around cybersecurity, and data privacy, thus necessitates building and maintaining digital trust as a priority.

Journey toward the \$5 Trillion Economy would be fueled by a combination of Smart Manufacturing (Industry 4.0), Connected Transportation and Logistics, Smart & Secure Cities, Adaptive Education, Cashless Transactions, and Intelligent Integrated Healthcare built with Innovative Governance. The core technology capabilities are likely to be around Internet of Things (IoT) management to monitor, control and orchestrate large amounts of diverse devices, along with 5G, 3D Printing, Automation, Blockchain, Artificial Intelligence, with innovations around communication standards and connectivity enabling an appropriate level of security.

Especially fueled by the government's impetus towards financial inclusion of the marginalized societies, lot of buzz and momentum got created around this digital disruption leveraging the rapid advancements in computing and network infrastructure, FinTech has seen huge developments in the last couple of decades, impacting industries across sectors as well as the common man in multiple ways. Building a new age financial infrastructure in a country with such linguistic and demographic diversity is a challenging task.

In this report, we have specifically looked at the Financial Technology Services sector that has seen some of the highest levels of digital disruption, opening a plethora of opportunities across all strata of the society, and how all involved stakeholders must



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work together to address the challenges and find rewarding ways to ensure inclusive growth through innovative services and products.

Moving forward, we need to supplement the initiatives with strong policy measures that enable their adoption at scale rather than just be fragmented, siloed success stories.

That apart, we also strive to look at the start-ups playing a crucial role of not only sustaining but also giving a growth impetus to the overall economy. Start-ups are disrupting the way old businesses worked, setting up businesses across industries ranging from Fintech to Food-tech and Robotics to AgriTech, particularly with no dearth of capital flowing in the startup economy.

Multiple measures taken by the major players of the startup ecosystem i.e. the government, private sector and academia has helped make the startups ecosystem more conducive to growth and participation by the talented young workforce. A push towards entrepreneurship by way of Make in India, Start up India, tax relaxation, building infrastructure of incubators, accelerators and co-working spaces and designing curriculums that encourages innovation and assists the youth to enhance their skills appropriate to meet the demands of the future are helping the startup ecosystem to blossom.

We will now need a combined effort from all players of the start up ecosystem to push the growth in order to move the Indian economy to a USD5 trillion economy in the next 5 years.



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01

Building new-age financial infrastructure for inclusive growth



Introduction

From opening a bank account to getting a loan or credit without creating a paper trail, technological disruption in the financial sector has given a strong push to the economic growth through creation of millions of jobs as well as financial inclusion of marginalised societies. The financial services sector has seen some of the highest levels of digital disruption, opening a plethora of opportunities across all strata of the society. This digital disruption has also moved us ahead on the path of financial inclusion, which has become a key discussion point in the current decade in India due to the government's enhanced zeal towards financial inclusion of the marginalised societies.

A World Bank report on financial infrastructure defines it as *"the underlying foundation for the financial system including the institutions, information, technologies and rules and standards which enable financial intermediation"*.¹ Multiple stakeholders, ranging from banks, fintech companies and financial services firms to government, regulatory institutions and value-added service providers are essential to set up a harmonised financial infrastructure that enables last-mile growth in its true sense.

At a broad level, there are multiple facets of financial infrastructure that work towards enabling an inclusive growth story in the country. The obvious components of financial

infrastructure range from core banking infrastructure to recent innovations in financial technology such as India Stack, comprising elements such as Aadhaar, Aadhaar Enabled Payment System (AEPS), Unified Payments Interface (UPI), e-KYC, etc. The consent layer in India Stack also allows building consent-based architectures through free and secure data movement and a democratised data market. Moreover, in today's sense of the term 'financial infrastructure', mobile networks and associated components also form a critical part of the infrastructure that enables financial technology and services to be delivered seamlessly to the remotest corners of the country.

While the core digital pillars of infrastructure are critical, and the country has taken multiple steps towards building Aadhaar, e-KYC and similar systems, there is a gap that needs to be filled when it comes to ensuring adoption of these reforms. While creating the infrastructure is critical, there are other softer aspects such as financial literacy that play an equal, if not more important role in leveraging financial systems for inclusive growth. Any infrastructure that enables or drives financial literacy among the masses needs critical support from all stakeholders in the system.

With the rapid advancements in computing and network infrastructure, financial technology has seen huge developments in the

last couple of decades, impacting industries across sectors as well as the common man in multiple ways. But the real question to be asked is whether these advancements have enabled growth opportunities across the population in a country where 66 per cent of the population still resides in rural areas² (as of 2018) with lower literacy levels, weak infrastructure and lack of access to basic banking facilities. This question requires a deep dive into multiple aspects of growth through financial inclusion, and all involved stakeholders must work together to address the challenges and find rewarding ways to ensure inclusive growth through innovative services and products.

1. Building Access Through Transparent and Stable Financial Systems, IFC, 2009
2. Rural population (% of total population), World Bank, 2019



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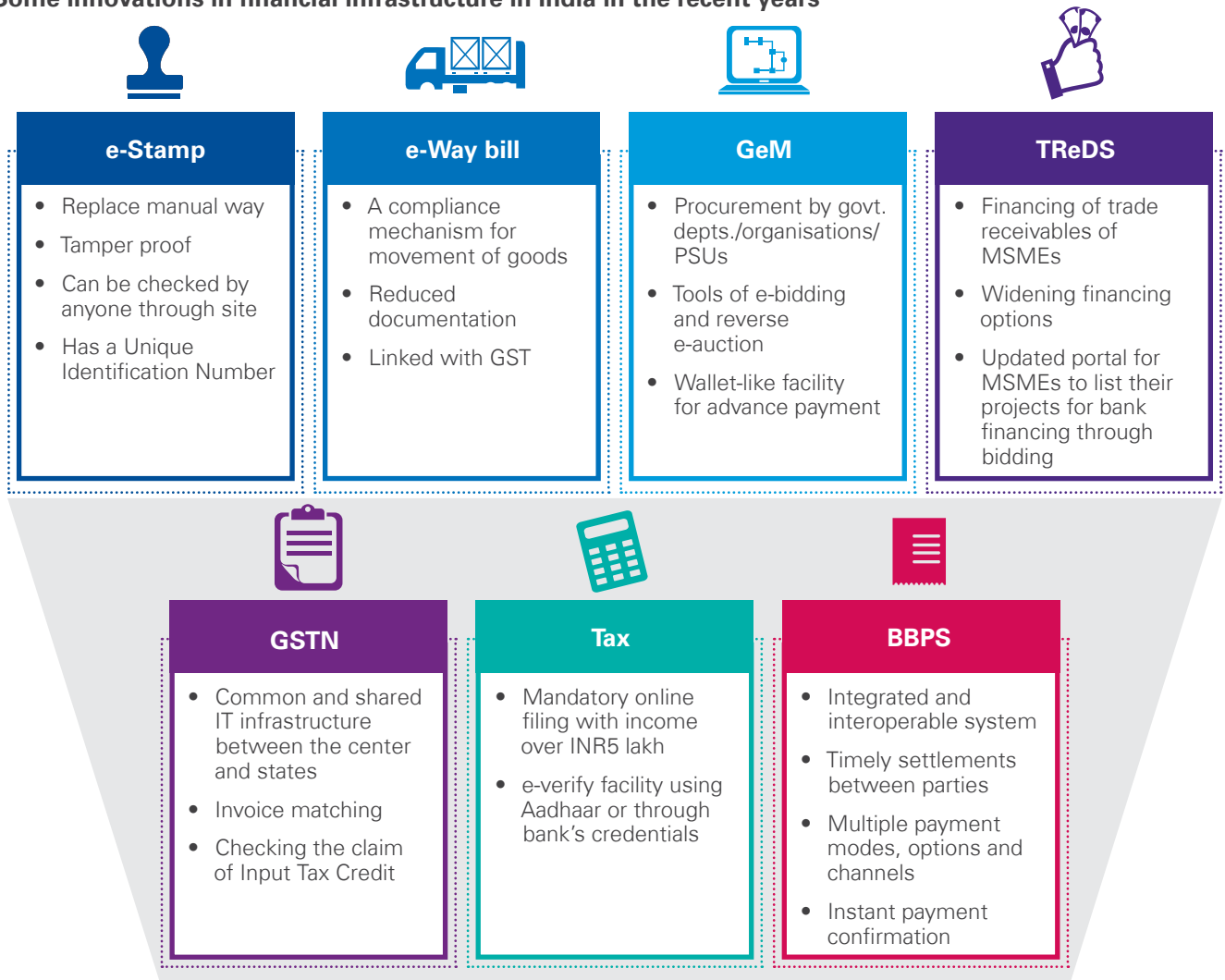
The current state of inclusivity of India's financial infrastructure

The Organisation for Economic Co-operation and Development (OECD) defines inclusive growth as *“economic growth that is distributed fairly across society and creates opportunities for all”*.³ Sustainable and inclusive growth of an economy is a challenge that needs to be looked through multiple lenses. One of the most important among those is access to basic banking and financial services such as savings and credit, which help catalyse a virtuous cycle of business opportunities, entrepreneurship and consumption.

Building the right financial infrastructure to meet the agenda outlined here involves several stakeholders, from policymakers and regulators to public and private banks and financial services institutions, telecom

operators, credit bureaus, etc. Even new-age fintech companies have joined the bandwagon of stakeholders aiming to create infrastructure that enables the right growth opportunities for the unbanked segment. The uniqueness of India's story lies in the trend of democratic innovation in the country, where players across the board, both small and big, and trying to innovate in products and services to address the market's needs. Innovation in India hasn't been limited to or controlled by a few large firms that have the capacity to burn cash.

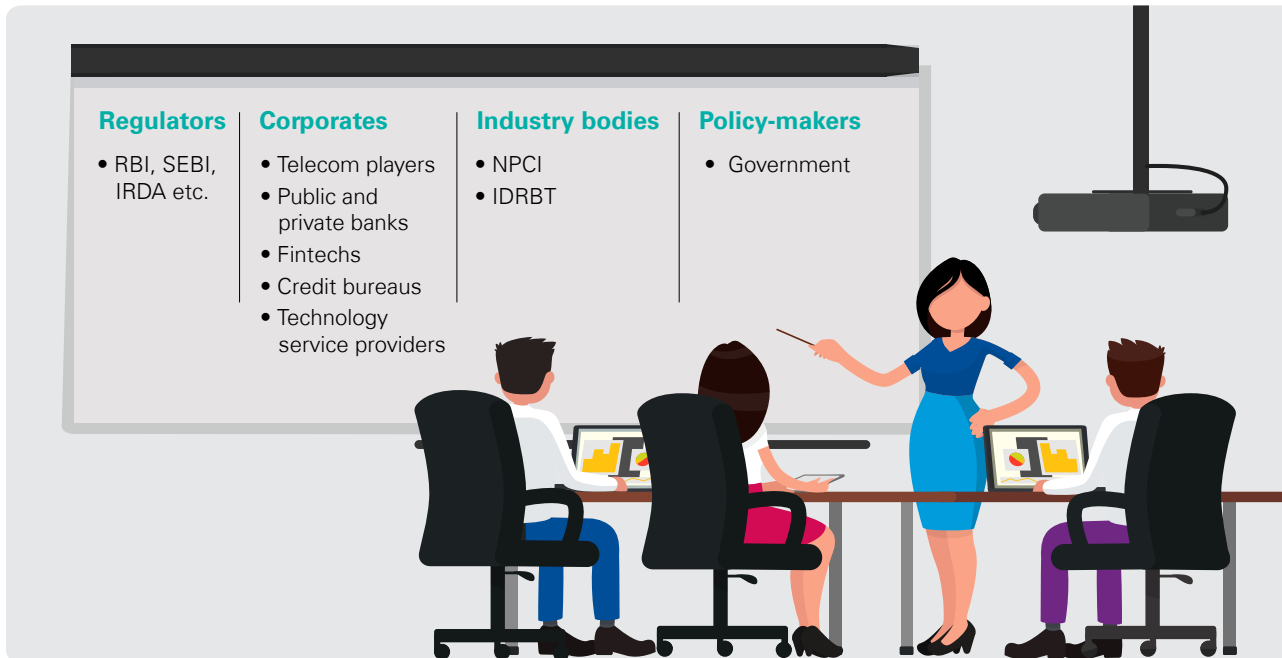
Some innovations in financial infrastructure in India in the recent years⁴



3. INCLUSIVE GROWTH, OECD, October 2019

4. Fintech in India – Powering a digital economy, KPMG in India, September 2018

Stakeholders in building a new-age financial infrastructure



India has seen the development of multiple robust financial infrastructure systems, which have been successful in silos. However, to fully realise their potential in enabling full access to financial services such as credit, such systems must be integrated through a common thread to ensure better use of data.

In the last decade, we have made great strides in setting up a robust, world-class financial infrastructure. Be it the Immediate Payment Service (IMPS) system, rated the best fast-payment network in the world by FIS,⁵ or the UPI, a layer on top of IMPS for easy, direct bank-to-bank transfers, the country has seen rapid innovation in financial infrastructure in this period. To address the segment with lack of network connectivity, initiatives such as Unstructured Supplementary Service Data (USSD) based payments have also been implemented but have not gained the desired traction yet.

The government of India has strived to ensure basic banking through initiatives such as the Jan Dhan Yojana, opening millions of new bank accounts and implementing direct benefit transfers to such accounts. However, as of 2018, around 190 million Indians⁶ still lacked a bank account, which in effect disconnects them from other services in the financial services network. Even among the accounts opened

under the Jan Dhan Yojana, several remain either inoperative or see very few transactions each year.

As a natural progression from basic banking, affordable credit, and easy access to it is a critical element of enabling opportunities for the Micro, Small and Medium Enterprises (MSME) industry growth. While the government has introduced multiple initiatives in this regard such as the Pradhan Mantri Mudra Yojana, most of such interventions are in the form of incentives, rather than structural improvements to boost credit disbursement among such sectors. As per a recent IFC report,⁷ the current credit gap in the system has been pegged at INR16.6 lakh crore.⁸ While encouraging basic banking and direct benefit transfers have led to some improvements in access to credit, there is a lot of scope for tying up low-ticket size payments, insurance and mutual funds for a large section of the population. Without structural reforms in access to finance, closing this gap will remain a pipe dream.

Given this backdrop, it is essential to rethink the financial infrastructure that will form the base of inclusive growth in the country, going forward.

5. Faster Payments Innovation Index, FIS, 2018

6. At 190 mn, India has second largest unbanked population: World Bank, Business Standard, April 2018

7. Financing India's MSMEs, IFC, November 2018

8. MSMEs, India's growth engine, face a Rs 16 lakh crore credit gap, Economic Times, June 2019

What the future demands

Creating the ideal financial infrastructure for a country as vast and diverse as India requires holistic thinking and collaborative work from all involved stakeholders.

Given the rapidly expanding technology and network infrastructure in the country (627 million internet connections in 2019, approximately 829 million smartphones by 2022)^{9,10}, banks must leverage technology as well as last-mile channels such as kirana stores, logistics companies, postal networks, etc. to serve customers at lower costs, lower turnaround time and higher levels of trust. While technology providers focus on building low-cost devices to tap underserved areas, focus must be to leverage biometrics, vernacular and voice to contextualise services in the right way even in areas with lower literacy levels. Financial services institutions must also actively work on 'light' applications that run on networks with lower data speeds or have offline transaction modes. An intelligent combination of 'human touch' with technology

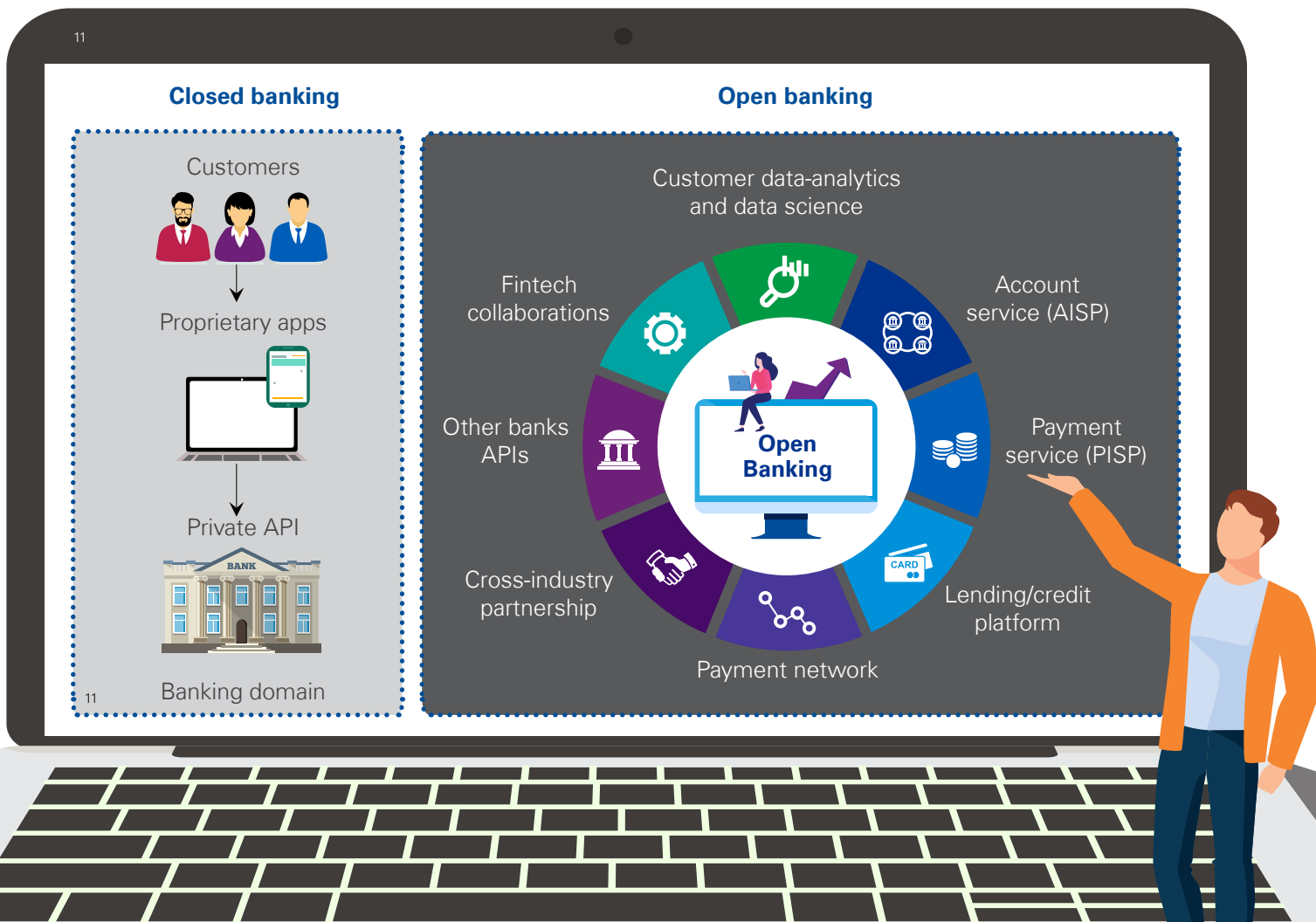
enablers will pave the way for inclusion and growth in the true sense, going forward. An important aspect of infrastructure development is the pace of innovation and its adaptability among the masses. The pace of innovation in financial infrastructure must be carefully aligned with the general population's ability to adapt to, as well as adopt, any new developments to realise their value in the true sense.

A critical component of any financial infrastructure's success is its ability to enable innovation beyond just large, traditional financial institutions. And in this pursuit of innovation by smaller, new-age fintech firms, the concept of open banking is set to transform the landscape in the coming years. In essence, it requires financial institutions to expose customer data to third party providers through Application Programming Interfaces (APIs).

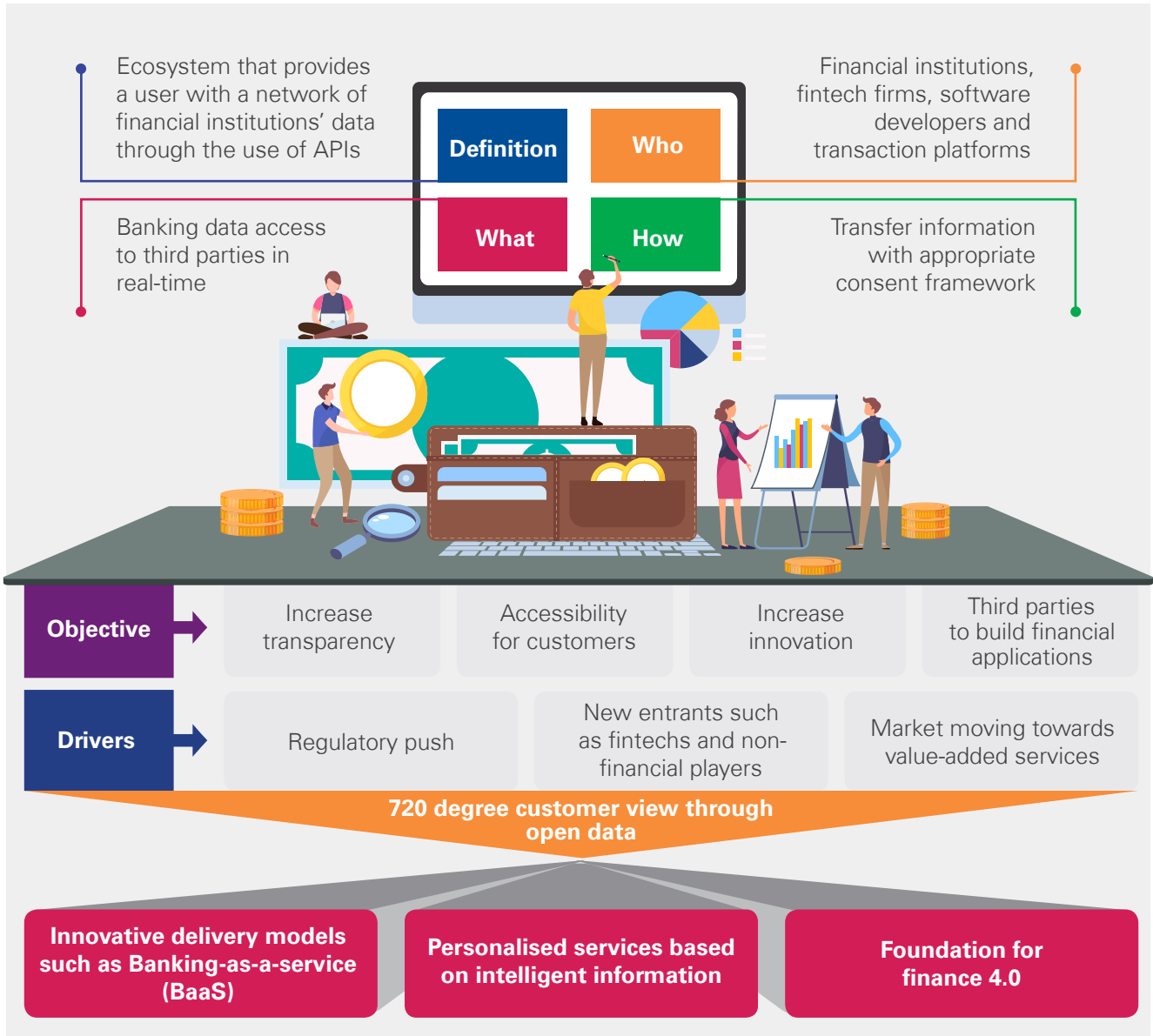
9. Internet users in India to reach 627 million in 2019, Economic Times, March 2019

10. The number of smartphone users in India will more than double in four years, Quartz, December 2018

11. Fintech in India – Powering a digital economy, KPMG in India, 2018



Open banking architecture¹²



Open banking infrastructure principles will form the base of a lot of innovation and competition in the future among fintech firms, who will leverage it to provide services that cater to the previously unbanked segments, through services ranging from modern payment systems to behavioral assessments for credit to thin-file customers.

Access to credit is a both a critical growth enabler and the lack of it is a significant pain point among a large

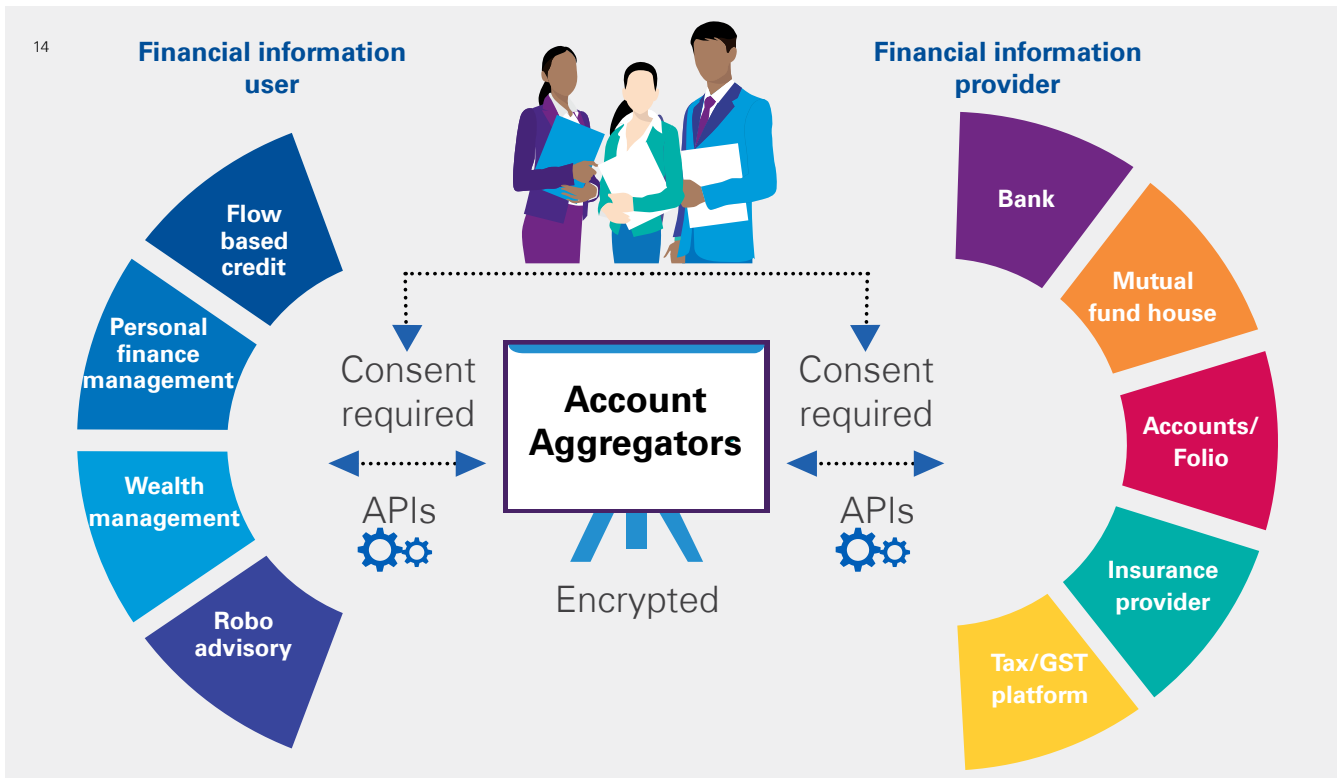
section of the population and industry. Going ahead, through payments innovation, firms will start to adopt low-cost digital payment modes, thus giving lenders a rich source of transaction data for creditworthiness assessments. Such regular flow of transaction data can form the base for what is known as 'flow-based lending'. Modern assessment methods such as psychometric assessments must also be carefully contextualised to each sub-geography in India and incorporate more visual rather than literary elements

12. Fintech in India – Powering a digital economy, KPMG in India, 2018

to be able to be applied at scale. Such methods have a huge potential to address the micro-credit gap in the country at low costs using fully digital methods, especially among thin-file customers. Availability of relevant data obtained through proper consent and in formats that are standardised are some of the aspects of any financial infrastructure enabling easier access to credit.

In a positive step towards building a secure, consent-based data¹³ sharing infrastructure, architecture such as Sahamati acts as a collective of the account aggregator ecosystem working towards accelerating the adoption of the framework and supporting its

implementation. Through the account aggregator system, individuals and small businesses can securely share their data with third parties such as lenders, with greater visibility on how the data is being used. It will allow democratisation of data and give a holistic view of customer’s data across the financial services network, without compromising on privacy principles. Areas such as KYC also need standardisation across all financial services, and new methods such as video-based KYC must be explored for increased customer convenience and lower costs for financial services companies.



Based on a robust financial infrastructure already in place, the next step forward for India can be to test and implement the concept of ‘sachet’ banking, offering products such as micro-credit, insurance, mutual funds and payments in very small ticket sizes. For instance, offering short-term, small ticket agricultural loans with payment schedules that align with a farmer’s harvest cycle will fulfil the unique needs of that segment.

From a physical infrastructure standpoint, the bank branches of the future are also set to transform. To cater to a wide base, banks must move towards leaner branches, and more self-serve functionality driven by increased automation, biometrics-based authentication and visual experiences. In the same context, the financial services regulator must work towards fixing the challenges with the Business Correspondent networks, which form a critical infrastructure for banks wanting to reach last-mile, remotely located customers.

13. Sahamati – Collective of the Account Aggregator Ecosystem, Sahamati, October 2019

14. Fintech in India – Powering a digital economy, KPMG in India, 2018

In tapping the remotest customer, the importance of new technologies such as 5G networks cannot be overlooked. While still under initial trials in many geographies, 5G technology can ease the deployment of mobile broadband and lower operational costs in the future. Its high speeds and low latency can allow fast, visual authentication modes such as iris, fingerprint-based biometrics on affordable devices with low power consumption. Transaction failure rates can come down with 5G technology, increasing the level of consumer trust in digital payments. It can also enable virtual reality-based customer service, wealth management and financial counseling in rural areas, thus closing the loop of financial inclusion among the masses.

With fast connectivity through 5G networks and development of quantum computing in coming years, technologies such as blockchain can also overcome their infrastructural challenges, and hence be able to power microfinance among the financially excluded. Fast authentication and higher computing power can increase effectiveness of blockchain applications in micro payments, digital identity storage and retrieval and reduce transaction costs, settlement time and transaction errors in the process. A mature system of such kind can radically change the landscape of financial infrastructure in the context of financial inclusion in the country.



Way forward ▶▶

A broad-based growth and development of the economy demands a robust financial infrastructure, that not only enables basic banking activities, but also supports critical financial services such as credit, insurance, fund raising through capital markets, etc. Given the number of regulators and corporates involved in enabling this financial network, it is essential that the infrastructure supporting it is integrated and robust, rather than siloed in nature.

What is essential is the creation of a holistic, secure and consent-based data sharing framework among all entities that avoids the challenges information asymmetry that plague the financial infrastructure that is in place today.

Through in-house innovation programmes, large banks and other financial institutions must work to address the needs of a changing demographic that is younger and more digitally savvy. But through products that are intuitive and leverage visual and voice mediums, attention should be paid to avoid the risk of excluding a large segment that belongs to an older demographic or is not literate, thus ensuring that they get equal growth opportunities through the financial system.

Along with pursuing development of innovative products, equal importance must be given to expanding financial literacy programmes by the government and industry to ensure larger adoption at scale. Emphasis

must be given to using vernacular mediums to spread digital financial literacy among the masses.

Building a new-age financial infrastructure in a country with such linguistic and demographic diversity is a challenging task. To be able to create the right growth avenues for customers and build scale in business, all involved stakeholders must proactively contextualise products that cater to the unique challenges and behaviours across each segment. As a country, we have achieved a lot implementing initiatives in project mode. Moving forward, we need to supplement the initiatives with strong policy measures that enable their adoption at scale rather than just be fragmented, siloed success stories.

Having delved into the areas where Financial Services sector needs to concentrate its energies to transform, going forward and sustain the momentum to enable the country's journey towards financial inclusion and drive India's \$5T economy ambition, we now change gears and move to the next section – Startups. Startups, cutting across sectors, can be an equally important boost that could leapfrog us and deliver the much needed transformative growth.





02

Startups and the Indian Economy



Introduction

India is the world's largest democracy with a vibrant mix of language, religion, culture and a large section of population sitting at the bottom-of-the-pyramid needing solutions in health, education, sanitation, infrastructure and finance.

Start-ups in India is not a new phenomenon, though historically it was focused more around sustainability instead of disruption. Dating back to the Indus valley civilization, the inherent enterprising attitude led to the inventions of stepwell, squat toilets, rulers, weighing scale and ploughs that eased the day to day life of people.¹ Invention of Zero changed the way mathematics evolved and Tipu Sultan was using the mysorean rockets much before the Nazis came up with missiles.² **Infact, India up until the mid-1800s was the second largest contributor to the world's gross domestic product (GDP), due to a well-established entrepreneurial ecosystem. India is not an emerging economy but a re-emerging economy.**

Even India's Independence and 'swadeshi' movements saw several new business houses emerge that are today successful global conglomerates. Between the period of WW 1 and up until the First Five Year Plan in 1951, India alternated between liberalisation and tighter controls.

The period between 1951 and 1980, saw heavy state intervention that saw businesses move from the hands of private enterprises to state, and each business requiring multitude of licenses, an era that came to be known as the 'License Raj'. This period stifled Indian entrepreneurship in a major way. It was only during the latter part of 1980s that the revival of the private enterprises or start-ups began and with the July 1991 Budget, India finally started its journey toward a market-based, outward-oriented economy. **The advent of the internet in India with VSNL launching its first commercial internet service in 1995 exposed Indians to the world wide web and gave birth to new-age**

businesses like a well established matrimonial site.

A burgeoning domestic market, massive funding and evolving technology has led to the growth of startups in every field: taxi booking, food delivery, groceries, travel. Though the start-ups initially were concentrated primarily to 3 cities Mumbai, Bengaluru and Delhi NCR, the statistics have rapidly changed in the past 5 years, and c. 44 per cent³ of the start-ups are now based in Tier 2 and 3 cities.

Start-ups are now everywhere!.

1. History of Missile, Brahmos Aerospace, last accessed on 25/10/2019
2. List of Indian inventions and discoveries, From Wikipedia, the free encyclopedia, last accessed on 25/10/2019
3. States Startup Ranking 2018, Government of India, Ministry of commerce & industry, Department of Industrial policy & promotion, Dec 2018, last accessed on 23/10/2019



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India a USD5 trillion economy?

The recently re-elected Government of India has set itself an ambitious goal of making India a USD5 trillion economy in the next five years. It was a promise first made during the election campaigns, later re-iterated by the NITI Aayog's flagship initiation of the Atal Innovation Mission (AIM), and in the Economic survey 2018-19 which was tabled in Rajya Sabha during the monsoon session.

It's a tough task to be achieved, especially given the recent downturn in the domestic and global economy. For the Indian economy to reach the USD5 trillion mark, it would need to rise at a rapid pace of 12 per cent CAGR, up from less than 6 per cent currently.

Several global and national factors have resulted in the Indian economy battling a liquidity crunch and severe demand slowdown leading to an economic growth rate to a six-year low of 5 per cent in the June quarter. The growth in private consumption expenditure fell to an 18-quarter low of 3.1 per cent.⁴

The International Monetary Fund (IMF)⁵ as on October 2019 has lowered India's growth rate to 6.1 per cent." In India, following a marked slowdown in the last two quarters, the economy is expected to grow at 6.1 per cent in this fiscal year, 2019 picking up to 7.0 per cent in 2020. "stated CHANGYONG RHEE, Director, Asia and Pacific Department, IMF.⁵

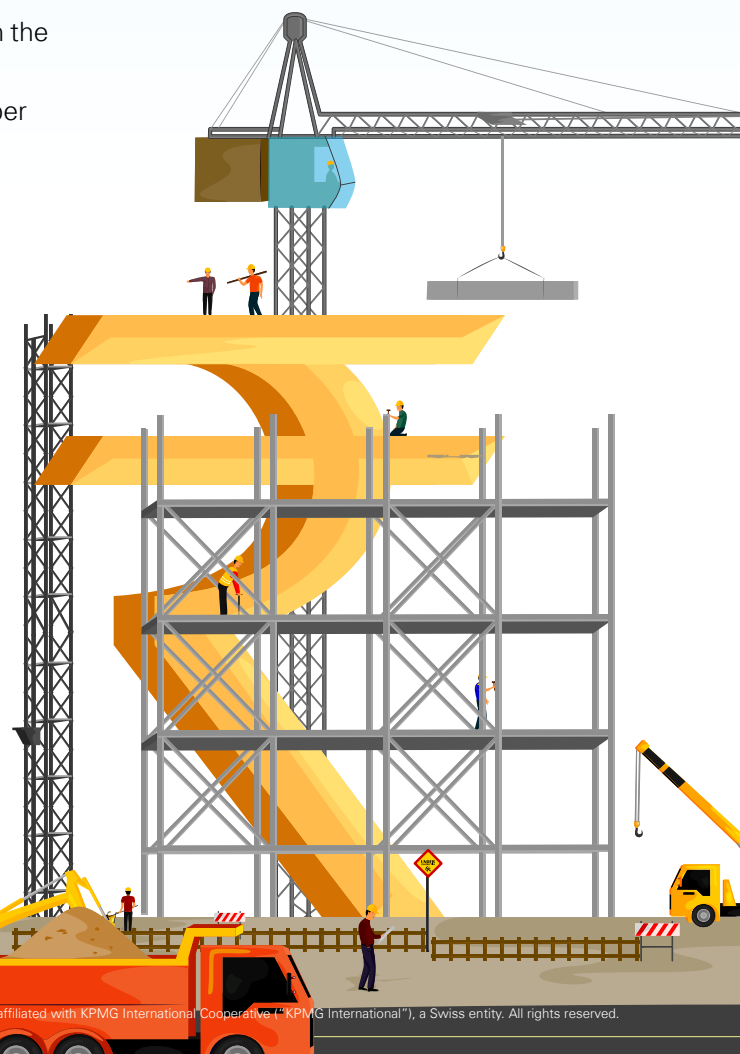
IMF also added that while the corporate income tax cut had a positive impact on investment, India must address issues with the financial sector.⁵

The latest unemployment rate is also at 6.1 per cent with 5.3 per cent in rural areas, and 7.8 per cent in urban areas per National Sample Survey Organization.⁶

4. After ADB, OECD, now IMF may slash India's growth forecast, livemint, Asit Ranjan Mishra, 10 Oct 2019, 10:31 AM IST, last accessed on 23/10/2019

5. International Monetary Fund, Transcript of October 2019 Asia and Pacific Department Press Briefing, CHANGYONG RHEE, Director, Asia and Pacific Department, IMF, 18/10/2019, last accessed on 23/10/2019

6. It is official: Unemployment rate in rural, urban India highest in 47 years, DownToEarth, Jitendra, 04/06/2019, last accessed on 23/10/2019



Importance of start-ups to the Indian economy

The recent slowdown in the Indian economy could partly be blamed on credit crisis seen because of Non-banking financial companies (NBFC) funding being dried up and the banking system's continued struggle with Non-performing assets (NPAs). With crucial liquidity being sucked out of the system, there has been a near complete breakdown in the investment cycle. Traditional businesses that relied on banks for funding significant portions of planned capex, are holding further investments.

This is exactly where the start-ups are emerging and playing a crucial role of not only sustaining but also giving a growth impetus to the overall economy. There has been no dearth of capital flowing in the **start-up economy with \$7.67 billion flowing in just 3 quarters of 2019. There were 21 funding that crossed \$100 million mark.**⁷ Start-ups are disrupting the way old businesses worked, setting up businesses across industries ranging from Fintech, Agri tech, EdTech and HealthTech

Today India is placed at third position in the global start-up ecosystem as of 2018 per NASSCOM and has seen **emergence of 'Unicorns' or companies that are valued at upwards of USD1 billion.** There are **29 unicorns and 32 soonicorns as of Q3 2019.**⁸ **Start-ups in e-commerce, healthcare and food delivery , are all offspring of the booming start-up ecosystem.**

As per the Start-up India 2018 report, **start-ups are expected to generate over 1.25 lakh direct jobs.**⁹ **The 16,105 DPIIT registered start-ups, have created over 187,000 direct jobs and each direct job has created an additional 3 indirect jobs.**¹⁰

The CEO of a successful food delivery start-ups has announced plans to hire 3 lakh people in the next 18 months making it the third largest employer only after the Army and Indian railways.¹¹

Start-ups play a very important socio-economic role in the Indian environment. The unique problems of India are being addressed by the start-ups' high supply chain costs, inefficiencies in trading and presence of middlemen, lack of access to financing and banking services, inefficient healthcare infrastructure and access to it are all being overcome by the highly innovative start-ups that are using emerging technology of AI, data analytics, machine learning cloud computing to bring the businesses, producers and consumers together nationally and globally.

Start-ups in agriculture, education, insurance and others are each help solving the inherent structural problems that the traditional businesses were unable to solve.

Since the start-ups are no longer limited to the Tier 1 cities, they are becoming more inclusive in nature and the **services provided by these start-ups are helping to elevate the rural regions of the country which were by far lagging,** again something that the old industries and the government were unable to solve.

The government push with the rollout of GST, Jan Dhan Yojana and Direct Benefit Transfer for the unbanked and underbanked population to join the formal banking system created a vacuum that was eagerly filled by the fintech start-ups. The traditional financial system which was unable to meet the demands of the various segments of the society whether during demonetization or with rollout of such schemes, were able to recognize the potential of the products and services FinTechs were able to offer.

The introduction of UPI enabled the rollout of interoperable payment services between FinTechs and traditional banking institutions which has led to further adoption of digital payments platform thereby creating more inclusion of different strata of the society. In fact, UPI could be considered as the single biggest disruption to the banking system and brought about by the government and not by any private, venture funded start-up.

Fintech companies are playing a very important role by providing easy credit options to micro, small and medium enterprises (MSMEs) which is the second largest employment sector in India after the agricultural sector. MSMEs which have historically struggled to gain credit from the traditional banking system with only 6 per cent of total lending going to MSME, have now found new ambits of formal lending through fintech companies. Fintech start-ups who are adopting advanced technologies like data analytics, AI to determine creditworthiness of potential borrowers, and faster turnaround to disbursing loans are truly making a difference to the growth and success of MSMEs thereby indirectly creating further jobs in MSMEs. As **per a recent survey by the Confederation of Indian Industry (CII), MSMEs have created additional jobs between 13.5 million to 14.9 million p.a. over the last four years.**¹²

7. Yourstory research funding report Indian startup ecosystem Jan- Sep 2019 funding

8. DataLabs by INC42 - THE INDIAN GROWTH STAGE STARTUP TRENDS REPORT 2019

9. State's Startup Ranking 2018, Government of India, Ministry of Commerce & Industry, Department of Industrial policy & promotion, December 2018, last accessed on 23/10/2019

10. Make in India boost! Govt recognises one start-up per hour in May, livemint, Asit Ranjan Mishra, 05 Jun 2019, 12:04 PM IST, last accessed on 23/10/2019

11. Swiggy plans to hire 3 lakh people in 18 months; aims to become third-largest employer in country, Business Today, Last Updated: October 19, 2019 | 15:54 IST, last accessed on 25/10/2019

12. What makes NBFCs a better choice for lending to MSME sector, TheEconomicTimes, ET Contributors, 05/07/2019, last accessed on 23/10/2019

With transformation driven by fintech companies in payment services, the economy is slowly but steadily moving to cashless economy. As of the first half of 2019, **the number of digital payments has increased by 34 per cent since demonetization.**¹³ As per KPMG report the **transaction value for the Indian fintech sector is estimated to be approximately USD33 billion in 2016 and is forecasted to reach USD73 billion in 2020 growing at a five-year CAGR of 22 per cent.**¹⁴

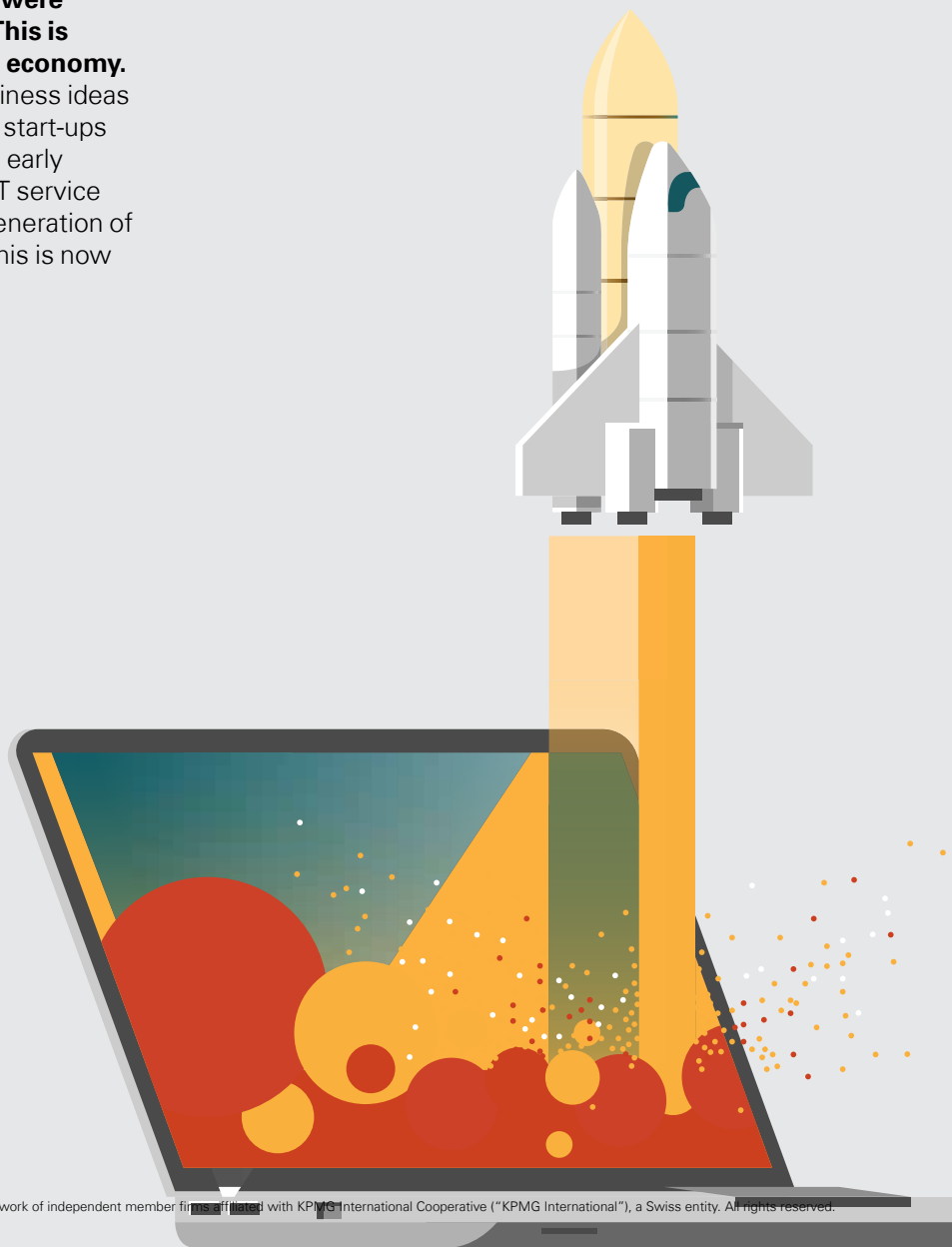
From wallets to lending to insurance, fintech services have redefined the way businesses and consumers carry out routine transactions, and positioning India as an attractive market globally.

The inflow of capital by way of funding has been phenomenal too. **According to DataLabs by Inc42's research 2019, till Q3 2019 a total of 2773 start-ups have raised USD51 billion across 4273 deals.**¹⁵ **In first half of 2019 alone, USD4.7 billion were invested in start-ups across 346 deals**¹⁶ **This is despite a visible slowdown in the Indian economy.** The primary reason for this is the niche business ideas and the underlying technologies that these start-ups offer. India has a very big IT talent pool. The early 1990s post liberalization saw the boom of IT service industry that helped create and expose a generation of young talent to global technology trends. This is now

being creatively used to address and serve the Indian public. Global investors naturally see the potential of how these services and ideas can be spread to other developing and even developed nations. Start-ups which are addressing the consumer needs across, education, health, food and travel, are also setting their footprints globally.

Successful and multi-bagger exits for some of the early stage investors from the acquisition of India's largest online retailer last year has led to renewed interest in the start-ups. There has been a spurt of capital flowing from Indian investors, including family offices, through a network of angel investment vehicles. The deployment of domestic and foreign capital into new age businesses, job opportunities created for a young population and filling the cracks of the country's uneven economic needs is a healthy sign of evolution of the start-up ecosystem.

13. Two-and-a-half years of Demonetisation: Cash rules, digital payments grow, credit cards drag, Financial Express, Samrat Sharma | Published: August 21, 2019 3:05:07 PM, last accessed on 25/10/2019
14. Fintech in India A global growth story, Joint publication by KPMG in India and NASSCOM 10,000 Startups, June 2016, last accessed on 23/10/2019
15. DataLabs by INC42 - THE INDIAN GROWTH STAGE STARTUP TRENDS REPORT 2019
16. Startup investments stay strong despite slowdown, Livemint, M. Sriram, 21 Aug 2019, 12:41AM IST, last accessed on 23/10/2019



Way forward ▶▶

Government

In the past few years, the government has come up with several initiatives to spur the growth in entrepreneurship and skilled workforce. Those initiatives have now slowly started to show their positive effects.

Initiatives like Start-up India, Stand-up India, Fund of Funds for Start-ups or NITI Aayog initiatives, financial and procedural support, Skill India, online learning and development programs are all contributing in this direction.

The continuous reforms have helped the **country jump to the 63rd position in the "ease of doing business" ranking, a whopping 14 places jump from last year's ranking¹⁷**

However, what we now need is **a new age government support system for the new age business.**

1. Create vehicles for the start-ups to go global – Despite being the 3rd largest startup economy in the world, **Bangalore is the only city that found a place in Genome's global top 20 index.**¹⁸ Government can step in to create exchange programs and partnerships with nations, corporates and academia to encourage start-ups to go global. Creation of favorable trade policies, knowledge sharing and collaboration platforms, tax incentives to go global are some techniques to help startups to spread its wings internationally. A culture of ambition also needs to be inculcated in entrepreneurs which can only come when they are exposed to global markets, exchange ideas and examine the success that can be achieved by tapping the unexplored markets.

Another important factor is for the government to stop interfering in the business of start-ups. **A cab hailing service unable to operate due to government interference or an alcohol delivery startup being barred in certain states on ethical issues runs contrary to the government initiatives.**

- 2. Filling the white spaces in the value chain** – There are many points in the end to end value chain, where India is heavily reliant on imports. For e.g. **Although, 95 per cent of the mobile handsets consumed in India are domestically produced,¹⁹ USD13 billion worth of mobile components had to be imported.²⁰ The reason for this is lack of expertise to manufacture the high value components.** This scenario is no different from the late 1990s early 2000s when India was known as the global 'call center' hub. Due to timely reforms, India graduated to Knowledge process outsourcing hub and moved to be the global Information technology hub.
- 3. Breeding a culture of innovation** – A culture of innovation and collaboration has to be created and government along with the corporate sector can take steps by tying up with global universities and sponsoring research and development. A very well know search engine was born in the research Centre of the Stanford university.

17. India jumps to 63rd position in World Bank's Ease of Doing Business 2020 report, TheEconomicTimes, Yogima Seth Sharma, updated: Oct 24, 2019, 12.53 PM IST, last accessed on 25/10/2019

18. Startups must go global from the start: JF Gauthier, Founder Genome, TheEconomicTimes, Malini Goyal, ET Bureau, updated: Jan 20, 2019, 10.50 AM IST, last accessed on 25/10/2019

19. How mobile manufacturing made the most of 'Make in India', TheEconomicTimes, IANS, Updated: Aug 11, 2019, 02.07 PM IST, last accessed on 25/10

20. India Imported \$13 Billion Worth of Mobile Phone Components in 2018, Counterpoint, TARUN PATHAK, FEBRUARY 22, 2019, last accessed on 25/10/2019



The golden triangle of government, private sector and academia are important players who can provide the impetus needed to grow the start-up ecosystem.

Private sector

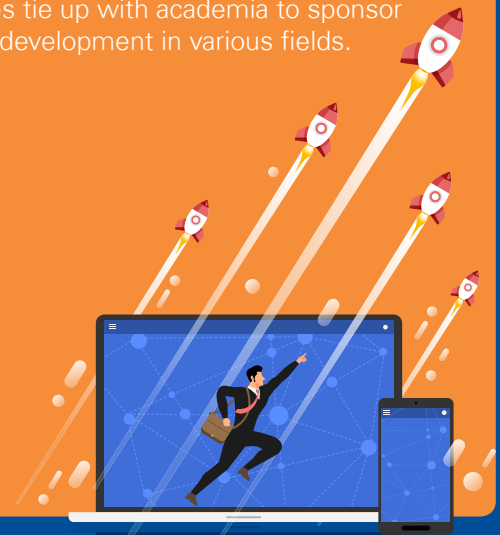
Corporates and private sector players apart from investing healthily via PE/VC are also actively sponsoring creation of incubators, accelerator and co-working spaces to aid the start-up ecosystem. Per the DataLabs report, there are 250 active incubators and accelerators and 300 co-working spaces²⁰ in India.

The support provided through these incubators/accelerators are

- Access to proprietary software and tools
- Technology counsel, mentorship and investors
- Easily accessible collaboration system
- Access to a fully equipped high-end lab space

20. DataLabs by INC42 - THE INDIAN GROWTH STAGE STARTUP TRENDS REPORT 2019

The private sectors now need to collaborate with universities and sponsor research and development (R&D). Globally, private sector and corporates tie up with academia to sponsor research and development in various fields.



Academia

Research-intensive academia is an ideal setup for nurturing entrepreneurial skills and attitudes. Institutes have the capability to provide its students with research driven evidence-based education and exposure to cutting edge technology. Globally, universities have become the epicenter of licensing and patenting of their research results which are ultimately trickled down into the society.

The Indian academia needs to now move along the same path and make research an intrinsic part of its existence by allocating more funds towards scholarship and research under its various programs. These can be furthered by participation by the private sector.



In conclusion

Start-ups are pushing the boundaries and creating new possibilities for the Indian Economy. Startups are not only providing new solutions but also creating a new market place by serving the society, reducing digital divide and helping sections of the society, which were previously struggling to be a part of inclusive financial system. All the key players of the economy should be aligned with growth of start-ups by continuous collaboration and innovation.



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KPMG in India, a professional services firm, is the Indian member firm affiliated with KPMG International and was established in September 1993. Our professionals leverage

the global network of firms, providing detailed knowledge of local laws, regulations, markets and competition. KPMG has offices across India in Ahmedabad, Bengaluru, Chandigarh, Chennai, Gurugram, Hyderabad, Jaipur, Kochi, Kolkata, Mumbai, Noida, Pune, Vadodara and Vijayawada.

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About CII

The Confederation of Indian Industry (CII) works to create and sustain an environment conducive to the development of India, partnering industry, Government, and civil society, through advisory and consultative processes.

CII is a non-government, not-for-profit, industry-led and industry-managed organization, playing a proactive role in India's development process. Founded in 1895, India's premier business association has around 9000 members, from the private as well as public sectors, including SMEs and MNCs, and an indirect membership of over 300,000 enterprises from around 265 national and regional sectoral industry bodies.

CII charts change by working closely with Government on policy issues, interfacing with thought leaders, and enhancing efficiency, competitiveness and business opportunities for industry through a range of specialized services and strategic global linkages. It also provides a platform for consensus-building and networking on key issues.

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As a developmental institution working towards India's overall growth with a special focus on India@75 in 2022, the CII theme for 2019-20, Competitiveness of India Inc./India@75: Forging Ahead emphasizes Industry's role in partnering Government to accelerate India's growth and development. The focus will be on key enablers such as job creation; skill development; financing growth; promoting next gen manufacturing; sustainability; corporate social responsibility and governance and transparency.

With 65 offices, including 9 Centres of Excellence, in India, and 10 overseas offices in Australia, China, Egypt, France, Germany, Singapore, South Africa, UAE, UK, and USA, as well as institutional partnerships with 355 counterpart organizations in 126 countries, CII serves as a reference point for Indian industry and the international business community.



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